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RUEHLO/AMEMBASSY LONDON 0671
RUEHFR/AMEMBASSY PARIS 0414
RUEHRO/AMEMBASSY ROME 1106
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C O N F I D E N T I A L SECTION 01 OF 03 LAGOS 001033

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TREASURY FOR DAN PETERS
USDOC FOR 3317/ITA/OA/KBURRESS
DEPT PASS TO EX-IM KVRANICH AND BUBAMADU
PASS OPIC FOR ZHAN AND MSTUCKART
PASS TDA FOR NCABOT
PASS USTR FOR ASST USTR SLISER

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TAGS: [ECON](#) [EINV](#) [EFIN](#) [PGOV](#) [NI](#)
SUBJECT: TRANSCORP BEGINS TO LOOM ON THE NIGERIAN ECONOMY

REF: A)ABUJA 1843 B)ABUJA 1802 C)LAGOS 874 D)LAGOS 867

Classified By: Consul General Brian L. Browne for reasons 1.4(b) and (d).

11. (C) Summary. In being selected by the Government of Nigeria to purchase the controlling interest in NITEL, the Transnational Corporation of Nigeria (TCN) has bagged the biggest catch thus far in Nigeria's privatization exercise. Fueled by NITEL and their other acquisitions, TCN is rapidly becoming a behemoth in the Nigerian economy. However, free market advocates deride TCN as a "quasi-parastatal", and see TCN's gains as distorting the marketplace. The company's board of directors is peopled by Obasanjo's business clique. Because of this close affinity, TCN has come under the public microscope for receiving favorable concessions on several projects including oil blocks, refineries and now NITEL. While TCN has recorded an impressive array of acquisitions recently and has done well attracting investors, Obasanjo's failure to secure a third term casts a shadow over the company's post-2007 future. End summary.

Background

12. (U) On July 21, 2005, President Obasanjo inaugurated TCN, to fulfill his ambition for Nigeria to field a large multinational corporation that will participate on the global playing field. Thus, TCN's genesis was as much a political decision as an economic one. TCN has raised naira 17 billion (USD 133 million) in private placements from several investors closely linked to government. Major investors include, Aliko Dangote, CEO Dangote Group; Festus Odimegwu, CEO Nigerian Breweries; Jim Ovia, Managing Director Zenith Bank; Jacobs Moyo jekigbe, CEO First Bank; Tony Elumelu, CEO United Bank for Africa; Femi Otedola, CEO Zenon Petroleum and Gas; and Dr. Ndi Okereke-Onyiuke, Director General Nigerian Stock Exchange (NSE). TCN Executive Director of Operations and former Nigerian Stock Exchange Head of Strategy, Nicholas Okoye, said TCN expected to raise an additional naira 30 billion (USD 234 million) from the Nigerian capital market through an initial public offer (IPO) in the third quarter of 12006. He expected more board members to join the corporation after the IPO. TCN invests in various sectors including:

oil/gas, agriculture, information technology, hospitality/entertainment, and international trade and plans to conduct roads shows in New York in August to lure potential U.S. investors, particularly in oil and gas.

NITEL

¶3. (C) Nigeria sold on July 3 a 75% stake in state-owned Nigerian Telecommunications Limited (NITEL) to TCN for USD 750 million through a negotiated sale process (reftel A and B). Industry insiders claimed this sale occurred because Obasanjo directly intervened on TCN's behalf. They complained the acquisition lacked transparency. Bismarck Rewane, CEO of Financial Derivatives, estimated that given NITEL's liabilities and their most recent strike (reftel C), NITEL's worth was between USD 300 and 400 million. TCN had to purchase the company at a grossly overvalued price to erase the perception that TCN's political connections allowed it to purchase NITEL. They had to "sweeten the deal" and pay people off, including former TCN Managing Director Fola Adeola, to prevent them from revealing insider information regarding TCN's questionable acquisition of NITEL, he said. However, now TCN is trying to take back some of the sugar from the coffee. Now that it has the deal, it is trying to negotiate down the purchase price.

¶4. (C) Motorola Nigeria Managing Director Raphael Udeogu groused to us that British Telecom, TCN's technical partner, had no real role to play in the NITEL acquisition except as window dressing to make TCN's bid appear more credible by linking TCN with a firm in the telecommunications sector.

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Several sources expressed dismay that a company with no telecommunications management experience, bagged the biggest catch in Nigeria's privatization exercise (reftel D).

Oil Blocks and Refinery

¶5. (C) Despite its late entry in the recent oil bid rounds, TCN won two oil blocks (295 and 281) amidst much public controversy (Septel). The corporation received preferential treatment in obtaining licenses and was granted extensions to meet financial deadlines. It also expects a favorable deal in its effort to build an independent power plant, and to gain tax breaks for scheduled agricultural projects, including a project to convert cassava to ethanol. Nigeria has been courting Brazilian firms to import their ethanol technology here.

¶6. (C) TCN is seen as the leading candidate for privatization of the 400,000 bpd refinery project in Port Harcourt. Representatives of Oando, a leading integrated Nigerian energy company, told us the Bureau of Public Enterprises (BPE) simply gave TCN Oando's proprietary technical plans and documents comprising its bid for the privatization of the Port Harcourt refinery. While BPE's actions seriously undermined the privatization process, Oando feared the political consequences of taking these charges public. Oando is operated by Wale Tinubu, a relative of Lagos State Governor Bola Tinubu, an implacable political foe of President Obasanjo.

Third Term Loss Hurts TCN

¶7. (C) President Obasanjo's failed third term bid has hurt TCN's future prospects, according to analysts. TCN Executive Director of Operations, Nicholas Okoye, admits the company faces an uphill battle in trying to reverse its negative corporate image. The company has tried to dissociate itself

from the third term political gambit. However, key TCN board members such as Nigerian Breweries CEO Festus Odimegwu, who had publicly (and crassly) supported Obasanjo's third term campaign, made that difficult. Many Nigerian companies threatened to boycott Nigerian Breweries products due to Odimegwu's vociferous endorsement of the third-term constitutional amendment. This hurt Nigerian Breweries' stock prices and TCN's public image. For his role as cheerleader for the failed third term, Odimegwu has been sent on compulsory leave from Nigerian Breweries and he no longer figures prominently in TCN's public outreach.

18. (C) What happened with Odimegwu might be a portension of rough-sledding for TCN as 2007 and the change of administration approach. Financial analysts view TCN's strong ties to the current administration as a potential liability. CEO Financial Derivatives, Bismarck Rewane, said the media already had declared prominent business members associated with TCN as "enemies of the people". Executive Director of Nigerian Economic Summit Group, Mansur Ahmed, agrees the personal politics between the President and TCN members means that even legitimate business deals conducted by TCN would be suspect. Moreover, corporate governance issues abound as the Director General of the Nigerian Stock Exchange serves as TCN's Chairman. Its negative public image, and allegations of unfair business practices, have delayed TCN's original plans to be listed on the Nigerian Stock Exchange in June, according to insiders.

Comment

19. (C) Comment. By exacerbating an already uneven playing field, TCN benefits only a small pro-Obasanjo business elite. TCN will continue to exploit its relationship with the current Administration to receive favors as long as possible,

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but TCN's future post-2007 is in peril. Under a new administration, TCN may not obtain the concessions it has grown accustomed to under President Obasanjo. Still, TCN is big and currently has the inside track on many acquisitions. Because of its advantageous position, it will invite many investors in the short-term. But many of these investors will have one foot pointed to the exit just in case government favor in 2006 turns into antipathy when a new administration takes over in 2007. End comment.
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